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EU RURAL DEVELOPMENT POLICY IN THE NEW PROGRAMMING PERIOD: CHALLENGES AHEAD AND IMPLICATIONS FOR ACCEEDING COUNTRIES

Luka Juvančič

University of Ljubljana, Biotechnical faculty, Zootechnical department, Chair for Agricultural Economics, Policy and Law, Groblje 3, SI-1230 Domzale, Slovenia. Tel. + 386 1 72 17 925; Fax: + 386 1 72 41 005. E-mail: luka.juvancic@bfro.uni-lj.si

ABSTRACT

Paper discusses about the main changes of the EU Rural Development policy and highlights the open issues that refer to its financing and implementation in the period 2007-2013. The paper presents the implications of the recent EU enlargement for implementation of rural development policy in countries aspiring for EU membership.

Key words: **EU rural development policy, programming period 2007-2013, EU enlargement**

1 INTRODUCTION

Countries that recently acceeded to the EU and those preparing for accession need to harmonize their rural development policies with the common policy framework of the EU. This means aligning the track for programming, implementation and monitoring of public support for rural development with common rules set at the Community level.

The latest EU enlargement vastly increased diversity of agricultural structures and created a new dimension to the notion of rural-urban development disparities [6]. It is therefore self-evident that the focus and choice of development priorities for rural areas has changed. The common legal framework was supplemented with measures tailored for the acceeding countries (such as support for semi-subsistence farming, support for adaptation of agri-food production to the Community standards, and support for producer groups) [2]. On the other hand, at least initially, the scope of financial support for rural development in New Member States was rather low.

The new programming period of the EU 2007-2013 again brings new challenges for the EU rural development policy. New legislation was adopted and financial agreement was struck. The significance of rural development policy within the Common Agricultural Policy is growing [7]. It has emancipated itself from the Community Cohesion policies. This period is also likely to embrace new applicant countries (Croatia, Turkey) and start accession talks with new candidate countries (countries from the Western Balkan region).

The paper looks at the issue of EU rural development policy from the acceeding country perspective. It intends to highlight risks and challenges that proved to be relevant in the recent EU enlargement and which can be of some relevance also for countries striving for EU-accession.

The paper is structured as follows. Firstly, in order to understand the recent changes in the EU rural development policy framework, it describes the motives that brought towards its (yet another) change. It continues with a brief description of the policy setup for the new programming period; it points out where this policy sought substantial changes, and where the policy framework remaied unchanged. Both implementation and financial aspects are taken into account. The paper concludes by discussing the key challenges for rural development policies in countries aspiring to EU memberships. Discussion draws from the experience of the recent EU enlargement.

2 EU Rural Development Policy: reasons for change

Endeavour of the Community to simplify the common rural development policy and to make it more flexible and transparent is not at all new. Although the programming period 2000-2006 brought some significant improvements (unified legal basis, increased scope of measures, increase of attributed public funds and improved accontability), it failed to satisfy all expectations [3]. The current policy framework did not satisfy demands of the stakeholders in the sense of simplifying the procedures of programming, providing more flexibility in the choice (and scope) of rural development measures and alleviating their administrative complexity [8].

In the practice, one of the big obstacles was the split of rural development support between two financial sources (EAGGF Guarantee and Guidance), which increased administrative complexity of the policy and thwarted flexibility of choice between the rural development measures [7].

This can be illustrated with the case of implementation of rural development policy in Slovenia [9,12]. Split of rural development support between two EU financial sources (EAGGF Guarantee and Guidance) meant in practice that implementation of rural development policy has been taking place under two headings of Community public expenditure: rural development policy and Structural Funds. Allocated funds under the heading ‘rural development policy’ could in fact be used only for CAP accompanying measures (eg. compensatory payments for less favoured areas, agri-environmental measures) and measures designed for new member states (mentioned in the Introduction). All investment-related support and support for 'non-agricultural' rural development measures was subject to financing from the structural Funds. Since the outcomes of financial negotiations were more favourable within the heading 'rural development policy', this meant that only about 10 per cent of rural development public expenditure in Slovenia could be attributed to measures promoting investments in agriculture and integrated rural development.

Each new programming period also means a chance to re-assess the policy delivery. As stipulated by the theory of economic policy [13], policies should reflect public preferences and expectations. Notwithstanding its simplicity, achievement of this principle is not easy. In practice, policymakers have to balance between goals, which are often mutually conflicting and which change over time. The EU rural development policy is no exception in this respect. Public preferences are manifold. Various groups of stakeholders accentuate numerous roles of agriculture and forestry, such as eg. sustainable use of natural resources, promotion of biodiversity, and provision of safe food of high quality. Removal of trade barriers stresses the need to enhance competitiveness of the sector. The policy elites endeavour for mainstreaming of rural development policy with with the long-term 'development paradigms' of the Community. These paradigms refer to sustainable development ('Gothenburg principles') and promotion of competitiveness and job growth ('Lisbon strategy') [1].

Another obvious reason for revision of the common rural development policy framework is the enlargement of the EU. With the recent enlargement from EU-15 to EU-27, diversity of agricultural structures increased dramatically [6]. Same holds for the gap in the level of economic development, especially with respect to economic development of rural areas [5]. Similarly than in the case o EU cohesion policy, EU enlargement brings a shift of balance in public expenditure for rural development in favour of the newly acceeded countries. Diversity of structural conditions and development needs thereof calls for expansion of the list of eligible measures, tailored for specific needs of new Member States.

Departing from the fact that the EU rural development policy is a common policy, large differences between the Member States in selected priorities and allocated volume of public expenditure are somewhat controversial [7]. As depicted in the Figure 1, selected priorities of rural development expenditure differ. Some member states spend the prevailing part of rural development support for payment of environmental and spatial public goods provided by farmers (eg. Ireland, Austria, Finland, Luxemburg, Sweden), whereas others put priority towards restructuring of their agri-food systems (eg. Greece, Spain, Portugal), or towards economic diversification of rural communities (eg. Netherlands, Germany). These changes can be seen as a reflection of different needs and/or public preferences of Member States.

Nevertheless, diversity of structural characteristics, development needs or public preferences cannot explain a great variability in the volume of rural development expenditure (figures in brackets represent the 2006 allocations in Euro per capita). It is symptomatic that high share of support given to environmental and spatial services of agriculture goes in hand with generous public expenditure especially in some ‘richer’ member states (Austria, Finland, Ireland). We can assume that, apart from public preferences, there are also other motives that influence the selected volume of Member states' rural development expenditure. Between more 'prosaic' motives, we can mention use of rural development funds for improvement of farm incomes and, in the case of net payers, for balancing their payments with revenues from the EU budget.

This is further illustrated in Table 1 depicting rural development expenditure in 2006, both in absolute (annual commitments) and relative terms (commitments per capita). The figures reveal the 'cohesion character' of rural developmnent expenditure. Less developed regions (so called 'Objective 1 regions') receive higher rates per capita. But high rates of rural development expenditure can be observed also in the cases of eg. Austria (which absorbs about a half of EU-15 expenditure for agri-environmental measures) and Finland.

3 EU rural development Policy 2007-2013: what is new and what remains the same?

3.1 Programming and implementation

The EU rural development policy therefore reflects public preferences concerning agriculture, food production and quality, environmental protection and spatial management. In the forthcoming programming period, the European Commission describes the mission of rural development policy as »…to accompany and supplement measures of the Common Agricultural Policy with the common objective of fostering sustainable development of rural areas in the extended Community« [4]. With respect to the previous regulation, EU rural development policy in the period 2007-2013 puts a greater emphasis to public preferences in the areas of food safety, food quality, animal welfare, sustainable use of environmental resources and maintenance of landscape and rural amenities [1].

The legal basis of the renewed rural development policy is the Council Regulation (EC) No 1698/2005 (hereinafter: Rural Development Regulation, RDR). The new rural development policy is build around 'four priority axes' [2]:

1: Support for competitiveness of agri-food sector and forestry;

2: Promotion of sustainable use of natural resources and landscape;

3: Economic diversification and quality of life in rural areas;

4: Mainstreaming of the LEADER (bottom-up, community-based) development approach.

RDR envisages simplified procedures of programming, implementation and financing of rural development support. This is enabled with amalgamation of rural development support within one financial mechanism (European agricultural Fund for Rural Development, EARDF). Rural development policy is now autonomous from the EU Cohesion policy (exemption from Structural Funds) [2].

Table 1: EU budgetary expenditure for rural development in 2006

	EU budgetary expenditure for rural development	
	Annual Commitments (total, in million €)	Annual Commitments (€/capita)
Austria	521.900	63.1
Belgium	85.469	8.1
Denmark	77.859	14.3
Finland	293.276	55.8
France	1.345.536	21.4
Germany	1.493.187	18.1
Greece	735.945	66.2
Ireland	404.619	96.1
Italy	1.179.704	20.1
Luxembourg	14.920	32.5
Netherlands	89.877	5.5
Portugal	603.035	57.1
Spain	1.621.573	37.1
Sweden	189.750	21.0
United Kingdom	358.323	5.9
EU15	9.014.973	23.1
Bulgaria	75.090	9.7
Cyprus	27.200	35.5
Czech Republic	269.674	26.3
Estonia	79.915	59.4
Hungary	354.477	35.2
Latvia	154.180	67.2
Lithuania	227.259	66.8
Malta	11.617	28.7
Poland	1.558.897	40.9
Romania	175.210	8.1
Slovakia	222.837	41.3
Slovenia	112.691	56.2
NMS12	3.269.047	30.6
EU27	12.284.019	24.9

Own calculations, based on data from [5, 8]

Eligible measures are grouped into three thematic groups, corresponding to first three 'priority axes' of the EU rural development policy. The number of eligible measures has increased (from 26 to 36). This goes mainly on the account of newly defined areas of support: forestry, animal welfare, and protection of environmentaly sensitive areas within the Natura 2000 network [1, 2].

The implementing rules have not changed significantly. Only one exception is more far-reaching and deserves mentioning: conditions for granting investment support in food processing and marketing have aggravated [2].

Rural development policy is implemented in a partnership between the EU level, member states and regions. In order to develop a consistent policy tool, increased activities are envisaged in strategic planning. Four succesive levels of policy programming are envisaged:

(i) Community strategic guidelines for rural development policy; (ii) National strategies of rural development; (iii) (national) rural development programmes, and (iv) local development strategies.[1] This is done in order to improve consistency and targeting of rural development support, and to ensure its complementarity with other EU financial mechanisms (Cohesion, environment). More active participation in policy programming and implementation is attributed to economic and social partners and the role of public-private partnerships is strengthened [8].

Concerns for a more efective management of rural development support have resulted in establishment of more rigorous monitoring and evaluation procedures. A common set of monitoring indicators has been established. The present policy evaluation framework is supplemented with on-going evaluation of rural development programmes [2].

After describing the changes, an obvious question is whether there is anything in the EU rural development policy that has remained the same. In fact, most of the above described changes are in fact only evolutionary modifications of the existing policy framework. Also the range of issues tackled by this policy did not increase significantly. Despite the rhetoric about the 'integrated and inter-sectorial approach', rural development policy of the EU remains primarily the '2nd Pillar of the Common Agricultural Policy' [7].

From the public finances perspective, rural development policy remains co-financed from the national budgets (the 'additionality' principle). Binding levels of co-financing from the national budget (at least 25 per cent in less developed 'Cohesion' regions and 50 per cent elsewhere) remain the same [2].

As for the administrative complexity of rural development policy, the picture is somewhat ambiguous. Procedures of programming and financing of rural development support are simplified significantly. On the other hand, complexity has increased with respect to the programming and implementation procedures at the local level (areas participating in the 'Leader priority axis), and in establishment of more demanding monitoring and evaluation systems, which will create additional administrative burden for the beneficiaries (demanding reporting procedures) [7].

3.2 Financial aspects

The EU rural development policy will operate in the period 2007-2013 through one single financial instrument, EARDF (see previous section). Financial management is planned to follow the approach known from the EU Structural funds. This means that programmes have to declare expenditure within a 2-year period after public funds have been allocated (the 'n+2' rule). It is expected that application of the 'n+2' rule will improve absorption capacity of rural development programmes.

The RDR has tackled the problem of unbalanced rural development expenditure by prescribing the Member States the minimum levels of public expenditure along the 'priority axes' [1, 2]. The Axis 1 (competitiveness of agri-food sector and forestry) and Axis 3 (economic diversification and quality of life in rural areas) measures should each receive at least 10 per cent of overall public financing for rural development. Measures promoting sustainable use of natural resources and landscape (Axis 2 measures) should receive at least 25 per cent of public financing for rural development. The lowest rate of public support for rural development carried through local development initiatives (so called 'LEADER programs) has been set to 5 per cent (2.5 per cent for new Member States respectively).

The member states will be able to reallocate funds between the measures within the same priority axis autonomously. Changes resulting in reallocation of funds between priority axes will have to be approved by the European Commission [2].

But probably the key point in discussing financial issues of EU rural development policy 2007-2013 is the volume of committed public expenditure.

Looking from the perspective of total volume of Community budget attributed to rural development policy, the situation is not encouraging. In relative terms, significance of rural development expenditure is stagnating.[2] This is due to the fact that the issue of rural development expenditure was directly dependent from the outcomes of the negotiation on total contributions to the EU budget [7]. Since the initial European Commission's proposal to increase the Community budget to 1.14 per cent of gross national income (GNI) was not accepted, there was no room for increase of budgetary commitments

[1] The latter applies only to the areas establishing local public-private partnerships and being eligible for support from the 'Leader priority axis'.

[2] In 2006, rural development policy amounted to 21.5 per cent of CAP expenditure, whereas in 2007-2013 period, the share is virtually the same, 21.6 per cent.

for rural development [10].[3]

The situation is therefore paradoxical: on one hand, the new policy framework paves the way for increased public efforts in the area of rural development. On the other hand, these aspirations are not backed by the volume of attributed public funds.

Another dimension of financial aspects relates to the allocation of funds between member countries. The initial allocation criteria were very loose: (i) status of 'convergence region' (ie. regions lagging in economic development); (ii) past expenditure and performance in rural development support, and (iii) specific needs and circumstances [2]. Due to scarce funds, there was almost no room for financial negotiations [10]. The allocation key was increasing the allocation for 'convergence' regions (resulting in a significant increase of rural development funds for the new member states) and retaining status quo for the remaining member states.

The final allocations of EU budgetary expenditure for rural development policy are presented in Table 2 below. In order to present the importance of rural development expenditure within the total CAP expenditure, the figures are added also for public expenditure on the first pillar of the CAP . The figures are presented in relative terms, ie. as annual commitments per capita, or as per cent of national GDP.

Comparison of budgetary expenditure expressed in percentage of BDP illustrates extensive differences in economic standard between the member states. A self-evident pattern dividing the 'old' (EU-15) and 'new' member states (EU-12) is seen here. In the case of the new member states, the CAP-related budgetary revenues are significant also in national economy terms (averaging above 1.5 per cent of GDP).

Another observation is that in the new member states, the volume of public expenditure for rural development is virtually the same than in the case of CAP Pillar I expenditure. This is owing to the fact that the new member states are not participating fully in CAP Pillar 1 measures.[4] In other words, the new member states are given non-equal treatment in CAP Pillar 1, whereas they are equally (or even preferentially) treated in in rural development policy.

There are still substantial differences in the volume of rural development expenditure per capita. This is particularly obvious in the case of the old member states (EU-15), where per capita commitments differ at a ratio higher than 1 to 10. Partly, this is due to the (more favourable in terms of budgetary revenues) cohesion status of some member states (eg. Greece, Portugal). On the other hand, high budgetary commitments of some net paying member states (eg. Austria, Finland) reveal that the problem of their 'strategic' behaviour was not resolved by the reformed policy framework.

4 Conclusion: implications for acceeding countries

The recent experience of the new EU member states in adapting to the common rural development policy framework provides some useful guidance also for other acceeding countries.

First of all, the significance that EU gives to rural development can be seen as a positive impulse for the acceeding countries. As a rule, the acceeding countries (Croatia, Turkey) and countries aspiring for EU membership (eg. countries from the Western Balkan region) are characterised by extensive share of rural areas. These areas are mostly facing severe structural problems and their economic standard is lagging behind the national, let alone the Community averages. Intensification of policy effort to tackle rural development problems can be regarded as a positive 'collateral effect' of EU-accession related activities.

It has to be accentuated that preparations for successful implementation of rural development policy in conditions of full membership start well before the EU accession. This includes preparations for, and actual implementation of the pre-accession support in the field of rural development. Despite relatively low support rates, the relevance of pre-accession instruments (SAPARD, IPARD) should not be underestimated. But the relevance goes primarily to the capacity-building issue, ie. developing a sound and effective implementation system. The volume of

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[3] Member states (some of the net payers) were pledging for substantial reform of the Community public expenditure and for significant reduction of the common budget. Their proposal included reduction (or even abolition) of the first pillar of the Common Agricultural Policy, ie. market support. The final outcome brought a slight reduction of total Community budget in relative terms (1.065 per cent of GNI). The structure of main expenditure items of the Community budget did not change significantly.

[4] The Accession Agreement states that the new member states are entitled only to a part of direct payments, which are the kay instrument of CAP Pillar 1. Farmers in the new member states were initially entitled to 25 per cent level of of direct payments compared with their EU-15 counterparts. The percentage is growing at a 5 per cent yearly rate and the level of direct payments received by the farmers from new member states will reach the EU-15 level in 2013.

Table 2: Projection of EU budgetary expenditure for CAP Pillar 1 (Common Market Organisation) and CAP Pillar 2 (Rural Development policy) in 2007-2013

	Annual commitments from the EU budget			
	Pillar II (Rural Development)		Pillar I (CMO)	
	€/capita	% GDP	€/capita	% GDP
Belgium	5.2	0.02%	96.27	0.31%
Denmark	10.5	0.03%	224.12	0.54%
Germany	12.5	0.04%	70.56	0.24%
Greece	42.6	0.24%	110.63	0.63%
Spain	22.2	0.10%	101.48	0.46%
France	13.8	0.04%	143.91	0.46%
Ireland	76	0.17%	417.65	0.93%
Italy	18.4	0.07%	58.21	0.22%
Luxembourg	25.7	0.04%	81.93	0.12%
Netherlands	3.8	0.01%	101.77	0.31%
Austria	61.8	0.19%	83.52	0.25%
Portugal	48.1	0.33%	58.57	0.40%
Finland	50.9	0.15%	108.57	0.32%
Sweden	26	0.07%	78.81	0.22%
United Kingdom	4.1	0.01%	71.78	0.22%
EU-15	17.1	0.07%	93.37	0.32%
Bulgaria	41.7	1.20%	38.25	1.10%
Cyprus	29.1	0.13%	42.08	0.19%
Czech Republic	35	0.32%	55.87	0.52%
Estonia	66.6	0.77%	64.54	0.74%
Hungary	47.5	0.47%	80.3	0.80%
Lithuania	63.8	0.93%	73.73	1.07%
Latvia	56.5	0.88%	41.9	0.66%
Malta	24.6	0.18%	9.55	0.07%
Poland	44	0.67%	48.38	0.74%
Romania	47.2	1.26%	38.43	1.03%
Slovenia	57.5	0.35%	51.92	0.31%
Slovak Republic	46.5	0.58%	45.14	0.56%
EU-12	45.4	0.81%	50	0.85%
EU-27	20.6	0.11%	84.05	0.34%

Own calculations, based on data from [10, 8]

earmarked EU pre-accession support does not meet all the needs and expectations for tangible impacts on various aspects of rural development should be modest. On the other hand, a significant increase of available EU funds for rural development can be expected after the accession.[5] It is not until full membership when public admininstration and beneficiaries pass the test of efficient use of earmarked funds.

Experience of recently acceeded countries (Slovenia was mentioned as an extreme case) show the importance of designing a balanced rural development support. A proper balance between measures promoting competitiveness of agri-food sector, those supporting sustainable use of natural resources and landscape, and those stimulating economic diversification of rural areas is indispensable

[5] In the case of the EU enlargement with ten new member states in 2004, this increase was up to ten fold.

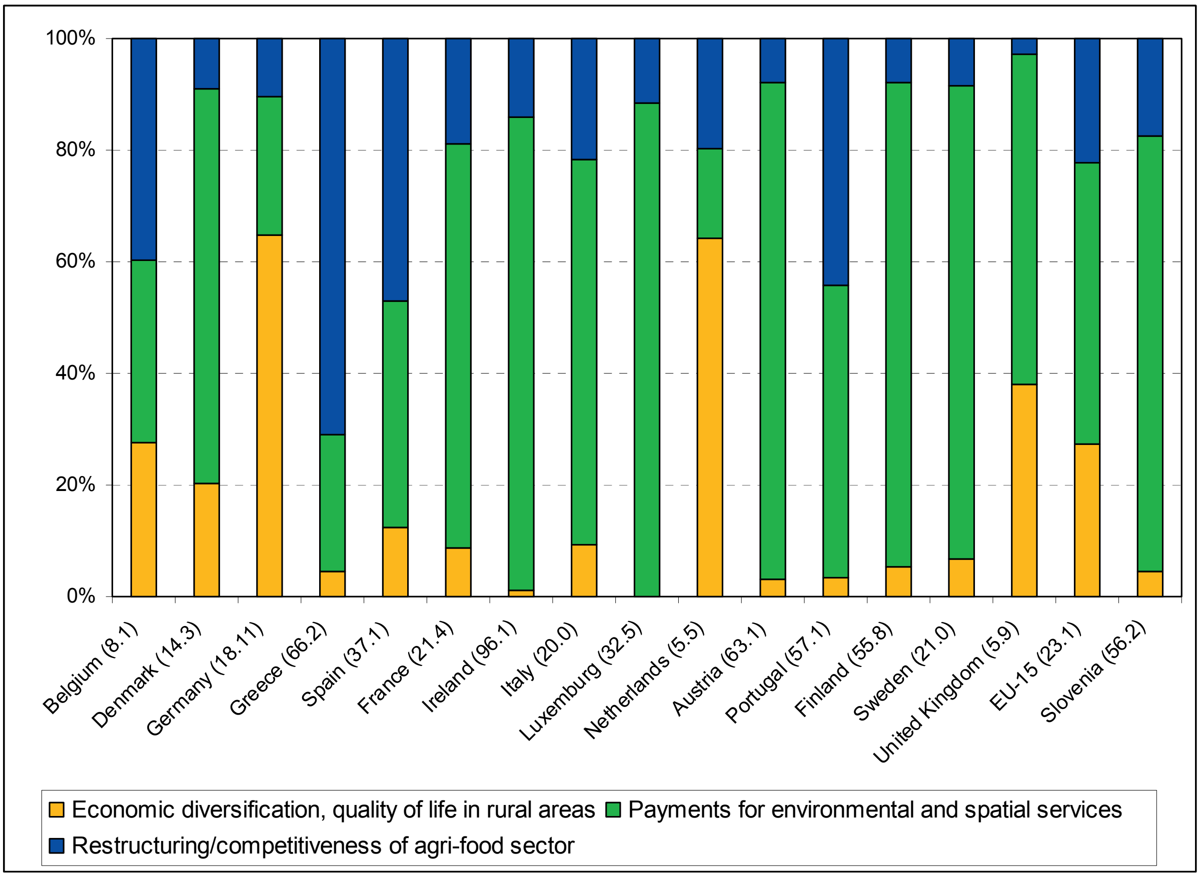

Figure 1: The structure of EU rural development expenditure in EU-15 and Slovenia in 2006 (source of data [11])

for carrying a long-term sustainable rural development policy.

Concerning the issue of financing of rural development policy, the experience of recently acceeded countries shows that the likely outcomes of accession negotiations concerning the CAP budgetary revenues are more favourable for the 2nd Pillar of the CAP (ie. rural development policy). Negotiations on CAP Pillar 1 (Common Market Organisations) are strictly based on objective criteria (statistical data) and manoeuvring space is very limited. On the other hand, financial negotiations for CAP Pillar 2 (rural development policy) leave more room for negotiations, but possibilities were often underestimated. It has to be borne in mind however that financial negotiations on rural development policy start 'at home'. They have to be backed with well developed rural development policy at the national level and attributed public funds have to prove the acceesion candidate's co-financing abilities.

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